

Message Text

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USIA-06 EB-07 TRSE-00 OMB-01 COME-00 AGR-05 SAI-01

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R 090327Z JUL 76

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 1157

INFO USLO PEKING

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY MOSCOW

AMEMBASSY RANGOON

AMEMBASSY ROME

COMUSTDC

CINCPAC

AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMEMBASSY CANBERRA

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 3 HONG KONG 8042

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: CERP, CH, XX

SUBJECT: PEOPLE'S REPUBLIC OF CHINA ECONOMIC REVIEW 14

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1. SUMMARY OF ACTIVITIES DURING THE REPORTING PERIOD

PROVINCIAL REPORTS REFERRING TO ATTEMPTS TO "SEPERATE" THE TACHI MOVEMENT FROM THE CAMPAIGN TO CRITICIZE TENG HISAO-PING SUGGEST A RECURRENCE OF LOCAL TENDENCIES TO CONCENTRATE ON TACHI'S PRODUCTION ASPECTS AND POINT UP THE PROBLEM OF RECONCILING CENTRALLY-IMPOSED IDEOLOGICAL MOVEMENTS WITH LOCAL PRODUCTION REQUIREMENTS (ITEM 2). PRC MEDIA CONTINUED TO PUSH THE THEME THAT ECONOMIC DEVELOPMENT HAS BEEN SPURRED BY THE CULTURAL REVOLUTION. AN NCNA ARTICLE ON THIS THEME ANNOUNCED A NUMBER OF NEW STATISTICS, INCLUDING ONE FOR CRUDE OIL OUTPUT WHICH WOULD INDICATE 1975 PRODUCTION OF AROUND 73 MMT, SOMEWHAT LOWER THAN THE GENERALLY ASSUMED LEVEL OF 80 MMT (ITEM 3). CHINESE FIVE YEAR PLAN PRIORITIES, REVEALED IN A MEETING WITH VISITING AUSTRALIAN PM FRASIER SUGGEST A LOWER RELATIVE POSITION FOR THE OIL INDUSTRY IN CHINA'S OVERALL DEVELOPMENT SCHEME FOR THE NEXT FIVE YEARS, WITH A HIGHER RANK FOR IRON AND STEEL AND THE MINING INDUSTRY (HK 7743).

ALTHOUGH PRC TRADE ACTIVITY OVER THE FIRST QUARTER WAS UP SHARPLY (EAST ASIA BRIEF 76-100), ALSO NOTED A DROPOFF OF US BUSINESS VISITORS IN MAY AND JUNE AND COMMERCIAL OFFICERS FROM OTHER EMBASSIES REPORTED A SIMILAR LOW LEVEL OF BUSINESS ACTIVITY (PEKING 1210). NEVERTHELESS, THE PRC CONTINUED TO CARRY OUT A HIGH LEVEL OF GOVERNMENT-TO-GOVERNMENT TRADE ACTIVITY. COMMODITY CONTRACT AND BANKING AGREEMENTS WERE SIGNED AND AMENDED WITH ETHIOPIA AND GREECE RESPECTIVELY. A PRC RUBBER TRADE MISSION ANNOUNCED THE PURCHASE OF \$12 MILLION WORTH OF MALAYSIAN RUBBER, MEETING AT LEAST PARTIALLY MALAYSIA'S DESIRE TO BOOST EXPORTS TO CHINA. WHILE IN MALAYSIA, CONFIDENTIAL

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THE TRADE GROUP ALSO ANNOUNCED A SHIP CHARTER ARRANGEMENT UNDER WHICH PRC SHIPS WOULD CARRY MALAYSIAN RUBBER TO EUROPE. (ITEM 4).

DATA FOR THE FIRST FIVE MONTHS OF 1976 POINTED TO A LEVELING OFF OF SINO-JAPANESE TRADE. LOWER JAPANESE STEEL AND FERTILIZER PRICES AND CUTBACKS IN CHINESE OIL SHIPMENTS CONTRIBUTED TO THE SLOWDOWN (HK 7673).

JAPAN HOWEVER, HAS AGREED TO TAKE AN ADDITIONAL 700,000 MT OF PRC OIL THIS YEAR. AT \$12.30 PER BARREL, THE SAME PRICE AS IN THE FIRST HALF OF THE YEAR (ITEM 5). IN OTHER TRADE NOTES, TAKING OIL WAS REPORTED TO BE READY FOR EXPORT FOR THE FIRST TIME (ITEM 6). AND PRC-HONG KONG TRADE AND RELATED ACTIVITIES SHOED A SHARP INCREASE (ITEM 7) CONFIDENTIAL

2. PROMOTE TACHAI OR CRITICIZE TENG HISAO-PING ?

TWO RECENT PROVINCIAL BROADCASTS HAVE CARRIED INTRIGUING REFERENCES TO ATTEMPTS TO "SEPERATE" THE TACHAI MOVEMENT FROM THE CAMPAIGN TO CRITICIZE TENG HSIAO-PING. RADIO CHUMCHI OF JUNE 21 SAID THAT ANY SUCH ACTION TO SEPERATE THE TWO MOVEMENTS, "SET ONE AGAINST THE OTHER, OR REVERSE THEIR RELATIVE SIGNIFICANCE IS WRONG." A HUNAN BROADCAST OF JUNE 23 USED ALMOST IDENTICAL LANGUAGE, ARGUING THAT CRITICISM OF TENG AND BEATING BACK THE RIGHT DEVIATIONSIT WIND ARE "COMPLETELY IN LINE WITH DEEPENING THE MOVEMENT TO LEARN FROM TACHAI".

A STRIKINGLY SIMILAR THEME APPEARED IN A "PEOPLE'S DAILY" COMMENTARY BY CHI YEN BACK ON DECEMBER 27, 1975. AT THAT TIME, HOWEVER, BEFORE THE ANTI-TENG MOVEMENT HAD TAKEN SHAPE, THE COUNTERPOISE WAS THE STUDY OF THEORY: ANY ATTEMPT "TO SEVER THE STUDY OF THEORY FROM THE MOVEMENT FOR BUILDING TACHAI-TYPE COUNTIES... AND STAND THEM AGAINST EACH OTHER IS WRONG".

COMMENT: TREATING TACHAI AS A "PRODUCTION MODEL ALONE" IS A RECURRING SUBJECT OF CRITICISM IN THE PUBLIC CONFIDENTIAL

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MEDIA. THE PROVINCIAL RADIO AND "PEOPLE'S DAILY" REFERENCES-ALTHOUGH TOO VAGUE TO PINPOINT PRECISE ISSUES-SUGGEST A REECCURRENCE OF LOCAL TENDENCIES TO CONCENTRATE ON TACHAI'S PRODUCTION ASPECTS. THIS TYPE OF MEDIA WARNING POINTS UP THE PRC'S HISTORICAL PROBLEM IN RECONCILING THE DEMANDS OF CENTRALLY-IMPOSED IDEOLOGICAL MOVEMENT WITH PRATICALLY PRODUCTION REQUIRMENTS AT THE LOCAL LEVEL, BUT IT ALSO HINTS AT LOCAL APATHY TOWARD THE CAMPAIGN TENG-AN IMPRESSION SUPPORTED BY OTHER SOURCES AS WELL. LIMITED OFFICAL USE

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3. CULTURAL REVOLUTION SPURS THE ECONOMY

A RECENT NCNA REPORT (JUNE 29) ON ECONOMIC ADVANCES DURING THE PAST DECADE MADE A NUMBER OF NEW STATEMENTS ABOUT THE ECONOMY, INCLUDING THE CLAIM THAT THE GRAIN OUTPUT TARGET OF THE FOURTH FIVE YEAR PLAN (1971-75) WAS REACHED ONE YEAR EARLY (THE PRC HAS OFFICIALLY ANNOUNCED REACHING A LEVEL OF 274.9 MILLION TONS PRODUCTION IN 1974); AND THAT NINE PROVINCES AS WELL AS 800 COUNTIES MET THE TARGETS OF THE NATIONAL PROGRAM FOR AGRICULTURAL DEVELOPMENT. PREVIOUS STATISTICS, RELEASED BY HUA

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KUO-FENG IN SEPTEMBER 1975 AT THE NATIONAL AGRICULTURAL CONFERENCE IN TACHAI, PUT THE NUMBER OF PROVINCES AND COUNTIES MEETING THESE TARGETS AT FIVE AND 725 RESPECTIVELY.

NCNA ALSO ANNOUNCED THAT DURING THE FOURTH FIVE YEAR PLAN PERIOD THE OUTPUT OF SMALL COAL PITS ACCOUNTED FOR 30 PERCENT OF NATIONAL COAL OUTPUT. THIS IS CONSISTENT WITH A 1973 CLAIM THAT SMALL COAL MINES ACCOUNTED FOR 28 PERCENT OF NATIONAL PRODUCTION AND INDICATES A STEADY SHARE OF TOTAL OUTPUT BY SMALL COAL MINES DURING THE 1971-75 PERIOD.

NOTABLE STATISTICS ON PETROLEUM CARRIED BY HSIHUA INCLUDE A 5.8 FOLD INCREASE IN CRUDE OIL OUTPUT AND A 3.3 FOLD INCREASE OF REFINING CAPACITY, BOTH OF WHICH WOULD LEAD TO ANNUAL GROWTH RATES OF 21 PERCENT FOR CRUDE OUTPUT AND ALMOST 16 PERCENT FOR REFINING CAPACITY. ASSUMING USG ESTIMATES FOR CRUDE PRODUCTION IN 1965 (10.8 MMT) ARE CORRECT, THE HSIHUA FIGURES WOULD INDICATE 1975 OUTPUT OF AROUND 73 MMT. ALTHOUGH THIS IS SOMEWHAT LOWER THAN THE GENERALLY ASSUMED LEVEL OF 80 MMT IN 1975, IT IS STILL WITHIN THE RANGE OF ACCEPTABILITY CONSIDERING THE NECESSITY OF USING OF ROUNDED PERCENTAGE FIGURES TO ARRIVE AT FINAL ESTIMATES. UNCLASSIFIED.

4. MALAYSIAN RUBBER SALE TO CHINA

FOLLOWING A VISIT TO KUALA LUMPUR, A PRC RUBBER TRADE MISSION ANNOUNCED THE PURCHASE OF \$12 MILLION WORTH OF MALAYSIAN RUBBER (SCMP JULY 5). THE MISSION FROM CHINA NATIONAL CHEMICALS IMPORT-EXPORT CORP. SIGNED A PURCHASE AGREEMENT WITH PERNAS, THE MALAYSIAN STATE TRADING COMPANY, AND A COLLECTIVE CONTRACT WITH SEVERAL RUBBER TRADERS. DELIVERY WILL BEGIN NEXT MONTH. THE HEAD OF THE PRC DELEGATION, CHEN MO, STATED THAT CHINA WILL IMPORT MORE MALAYSIAN RUBBER IN THE FUTURE. IN ADDITION, DURING THE VISIT THE CHINESE TRADE GROUP ANNOUNCED THAT CHINESE SHIPS WOULD BE CHARTERED TO MALAYSIAN COMPANIES TO TRANSPORT RUBBER TO EUROPE (AFP JUNE 24). LOWER FREIGHT RATES ARE REPORTEDLY BEING OFFERED IN ORDER TO HELP MALAYSIA BREAK THE MONOPOLY OF THE SHIPPING CONFERENCES.

COMMENT: THE PRC PURCHASE AMOUNTS TO ALMOST 15,000 CONFIDENTIAL

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MT AT CURRENT PRICES. THE AGREEMENT WILL MEET AT LEAST PARTIALLY, MALAYSIA'S DESIRE TO BOOST EXPORTS TO CHINA AND INCREASE THE PROPORTION OF DIRECT TRADE BETWEEN THE TWO COUNTRIES. SHARPLY HIGHER PRICES WILL PUSH UP THE VALUE OF CHINA'S RUBBER IMPORTS FROM MALAYSIA

THIS YEAR OVER THE LEVEL OF 1975 (90,000 MT WORTH \$47.5 MILLION) SO THAT ANY SIZEABLE INCREASE IN VOLUME THIS YEAR IS UNLIKELY.

PEKING'S OFFER OF CHARTERED SHIPS TO CARRY RUBBER TO EUROPE EXPANDS ON AN AGREEMENT IN MID-1975 TO HAVE CHINESE SHIPS CALL AT MALAYSIAN PORTS TO PICK UP RUBBER FOR EUROPE. SINCE CHINA'S GROWING INTERNATIONAL FLEET CAN STILL ONLY HANDLE HALF OF ITS OWN FOREIGN TRADE THIS WILL PROBABLY BE A TOKEN GESTURE. IT DOES INDICATE GROWING CONFIDENCE BY CHINA IN THE USE OF ITS FLEET AND WILL ALLOW PEKING TO "SHOW THE FLAG" IN AN AREA WHERE SOVIET SHIPPING IS MAKING INROADS WITH LOW FREIGHT RATES. UNCLASSIFIED.

5. JAPAN--OIL IMPORTS AND JOINT VENTURES

JAPAN'S TWO IMPORTERS OF PRC OIL HAVE REACHED AGREEMENT WITH CHINA ON PRICES AND ADDITIONAL OIL IMPORTS IN 1976. JAPAN WILL INCREASE ITS IMPORTS BY 700,000 MT IN THE SECOND HALF (KYODO JULY 6). JAPAN'S TOTAL IMPORTS OF CHINESE OIL IN 1976 WILL NOW TOTAL 6.8 MILLION MT COMPARED WITH 8.1 MILLION MT IN 1975. THE CHINESE HAD REQUESTED JAPAN TO IMPORT AN ADDITIONAL TWO MILLION MT THIS YEAR. UNDER THE AGREEMENT, INTERNATIONAL OIL TRADING WILL TAKE AN EXTRA 300,000 MT AND JAPAN-CHINA OIL IMPORT COUNCIL WILL PURCHASE 400,000 MT MORE. THE COUNCIL'S SHARE MAY BE REDUCED SUBJECT TO CONSULTATION WITH ITS REFINERS AND TRADERS. EARLIER, THE CHINESE AND THE OIL IMPORTERS AGREED TO MAINTAIN THE PRICE OF CRUDE OIL FOR THE THIRD QUARTER AT THE SAME LEVEL AS THE FIRST HALF OF 1975, US\$12.30 PER BARREL (AP, DJ JULY 1).

COMMENT: THIS OIL SALE WILL EARN CHINA AN ADDITIONAL \$63 MILLION AND PROVIDE A BOOST TO CHINESE EXPORTS TO JAPAN WHICH ROSE ONLY SIX PERCENT IN THE FIRST FIVE MONTHS OF THIS YEAR. SINCE THE JAPANESE HOLD AN OPTION TO PURCHASE TWO MILLION MORE TONS OF CHINESE

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CRUDE, ADDITIONAL SALES LATER IN THE YAR ARE POSSIBLE. THE OIL PRICE DECISION IS NOT SURPRISING SINCE PEKING HAS BEEN FOLLOWING OPEC'S LEAD ON PRICING.

ANOTHER PRESS ITEM (KYODO JULY 1) CITES A JAPANESE INDUSTRIAL JOURNAL, NIKKON KOGYO SHIMBUN, WHICH CLAIMS THAT A JAPANESE GOVERNMENT-SPONSORED OIL INDUSTRY MISSION WILL VISIT CHINA THIS FALL TO PROMOTE "JOINT OIL EXPLOITATION." THE MISSION, WHICH WILL RECIPROCATATE A VISIT BY A CHINESE OIL DELEGATION LAST MARCH, WILL "PAVE THE WAY FOR FAR-REACHING JAPAN-CHINA COLLABORATION, INCLUDING TECHNICAL COOPERATION, IN A JOINT HUNT FOR OIL ON OFFSHORE CONTINENTAL SHELVES AND ONSHORE FIELDS IN

CHINA."

COMMENT: THE GOALS OF THE JAPANESE OIL MISSION
SOUND OVERLY OPTIMISTIC. CHINA HAS REPEATEDLY REJECTED
JOINT VENTURES AND IN VIEW OF THE ANTI-TENG CAMPAIGN
SUCH A POLICY REVERSAL IS HIGHLY UNLIKELY. UNCLASSIFIED.

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INFO USLO PEKING

AMEMBASSY KUALA LUMPUR

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AMEMBASSY TOKYO

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CINCPAC FOR POLAD

6. TAKANG OIL READY FOR EXPORT?

A RECENT VISITOR TO THE TAKANG OIL FIELD REPORTED THAT

CRUDE OIL AND NATURAL GAS ARE PIPED INTO TIENTSIN, ABOUT 60 KILOMETERS AWAY. DESCRIBED IN THE HONG KONG CHINESE-LANGUAGE PRESS (NEW EVENING POST, JUNE 26) AS A "LOCAL OIL IMPORTER," THE VISITOR DISCLOSED THAT IN TIENTSIN THE CRUDE UNDERGOES HEAT AND PRESSURE, AFTER WHICH PART

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OF THE OIL IS SENT BY PIPELINE TO THE NEARBY PORT OF HSINKANG FOR EXPORT, WHILE PART IS DISTRIBUTED INTERNALLY BY RAIL. THE NATURAL GAS IS CONSUMED BY INDUSTRIES IN TIENTSIN.

THE REPORT ADDED THAT FOUNDATION WORK FOR A NEW HIGH POWER GENERATION PLANT IS UNDERWAY AT THE OILFIELD WITH WORK SCHEDULED FOR COMPLETION IN TWO YEARS, AND THAT THE PETROCHEMICAL PLANT UNDER CONSTRUCTION NEARBY IS ON A SCALE SIMILAR TO THAT OF THE LARGE CHINSHAN PLANT NEAR SHANGHAI.

COMMENT: THE UNNAMED VISITOR IS PROBABLY A REPRESENTATIVE OF FEOSO, THE LOCAL DISBRIBUTOR OF PRC OIL PRODUCTS IN HONG KONG. WE HAVE NOT PREVIOUSLY NOTED ANY REPORTS OF AN OIL PIPELINE TO HSINKANG. ALTHOUGH THE JAPANESE PRESS IN MID-1974 SPOKE OPTIMISTICALLY OF JAPANESE IMPORTS OF TAKANG OIL IF A PIPELINE TO THE PORT WERE COMPLETED (SEE TOKYO KYODO AUGUST 16, 1974), WE HAVE NOT YET SEEN ANY EVIDENCE THAT TAKANG OIL IS BEING EXPORTED, AND THE HONG KONG NEWS ACCOUNT MAY BE PREMATURE. LIMITED OFFICIAL USE.

7. HONG KONG--TRADE, WATER AND PENGUINS

OFFICIAL HONG KONG TRADE STATISTICS SHOW A SHARP INCREASE IN THE VALUE OF CHINESE EXPORTS TO THE COLONY. PRC EXPORTS IN THE FIRST FOUR MONTHS OF 1976 TOTALED HK\$2,393 MILLION (US\$481 MILLION) COMPARED WITH HK\$1,806 MILLION (US\$378 MILLION) FOR THE SAME PERIOD LAST YEAR--A 33 PERCENT INCREASE IN TERMS OF HONG KONG DOLLARS, AND 27 PERCENT IN TERMS OF US DOLLARS. A RECENT AGREEMENT WITH CHINA (SCMP JULY 2) WILL BOOST THE SUPPLY OF WATER TO HONG KONG FROM KWANGTUNG PROVINCE FOR THE COMING OCTOBER-JULY PERIOD FROM 18.5 BILLION GALLONS TO 24 BILLION GALLONS. THE WATER WILL BE PROVIDED AT THE SAME PRICE, US 26 CENTS PER THOUSAND GALLONS, AND WILL EARN CHINA AN ADDITIONAL US\$1.4 MILLION. ALSO, OCEANIC PARK IN HONG KONG HAS SENT EIGHT PENGUINS TO THE PEKING ZOO IN RETURN FOR CHINESE CRANES PRESENTED TO THE PARK.

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COMMENT: CHINESE EXPORTS TO HONG KONG CONTINUES THE STRONG RECOVERY BEGUN IN THE LAST QUARTER OF 1975. TRANSPORT INDICATORS SHOW THE TONNAGE OF GOODS UP ABOUT 25 PERCENT OVER THE SAME PERIOD LAST YEAR THUS HIGHER PRICES ACCOUNT FOR ONLY A SMALL SHARE OF THE INCREASE. THE WATER DEAL IS MORE SIGNIFICANT AS AN INDICATOR OF THE STATE OF SINO-HONG KONG RELATIONS THAN FOR ITS MONETARY VALUE TO CHINA. UNCLASSIFIED

8. AGRICULTURAL PURCHASES--SUGAR AND SOYBEANS

IN LATE JUNE CHINA PURCHASED 50,000 METRIC TONS OF SUGAR FROM THE PHILIPPINES FOR DELIVERY THIS YEAR. IN 1975 THE PHILIPPINES SOLD 11,000 TONS OF SUGAR TO CHINA. CHINA REPORTEDLY CONTRACTED IN JUNE WITH A SWISS FIRM, PANCHAUD, FOR DELIVERY OF 100,000 TONS OF SOYBEANS, WORTH AN ESTIMATED US\$25 MILLION, THE FIRST PURCHASE OF SOYBEANS BY THE PRC SINCE 1974. GRAIN TRADE RUMORS HAD THE CHINESE PURCHASING 200,000 TONS OF SOYBEANS FROM BRAZIL AND 900,000 TONS FROM THE US. HOWEVER, ONLY THE SMALLER BRAZILIAN DEAL HAS BEEN CONFIRMED.

COMMENT: WITH WORLD SUGAR PRICES DOWN, CHINESE IMPORTS WILL PROBABLY INCREASE THIS YEAR TO PERHAPS 500,000 TONS. SINCE BRAZIL APPARENTLY WILL BE UNABLE TO SUPPLY THE 150-200 THOUSAND TONS OF SUGAR THIS YEAR UNDER ITS LONG-TERM CONTRACT WITH THE PRC, IT IS LIKELY THAT SUGAR IMPORTS FROM CUBA WILL CONTINUE UNDER THE RECENTLY SIGNED SINO-CUBAN TRADE AGREEMENT. THE PURCHASE OF SOYBEANS FROM BRAZIL ALONG WITH CUTBACKS IN CHINA'S EXPORTS TO JAPAN INDICATES THAT CHINA'S SOYBEAN REQUIREMENTS EXCEED CURRENT DOMESTIC AVAILABILITY. DEPENDING ON THE EXTENT OF THE SHORTFALL, CHINA MAY BE BACK IN THE SOYBEAN MARKET AS A BUYER LATER THIS YEAR. UNCLASSIFIED.

9. RECENT REPORTS ON ECONOMIC TOPICS

HONG KONG 7673 - SINO-JAPANESE TRADE LEVELS OFF

HONG KONG 7702 - NATIVE PRODUCE MINI-FAIR
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HONG KONG 7743 - PRC FIVE YEAR PLAN PRIORITIES

HONG KONG 7780 - BANK OF AMERICA ASIA REP TOURS
CHINA WITH HK BANKERS GROUP

HONG KONG 7781 - PRC REVENUES AND EXPENDITURES

HONG KONG A-104 - MECHANIZATION GOALS--CONTINUITY
IN RURAL POLICY
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